



POSTAL REGULATORY COMMISSION

[Docket No. MC2012-14 and R2012-8; Order No. 1330]

New Postal Product

AGENCY: Postal Regulatory Commission.

ACTION: Notice.

SUMMARY: The Commission is noticing a recently-filed Postal Service request to add a negotiated service agreement with Valassis Direct Mail, Inc. to the market dominant product list. This notice addresses procedural steps associated with this filing.

DATES: Comments are due: May 23, 2012.

Reply Comments are due: May 30, 2012.

ADDRESSES: Submit comments electronically via the Commission's Filing Online system at <http://www.prc.gov>. Commenters who cannot submit their views electronically should contact the person identified in FOR FURTHER INFORMATION CONTACT by telephone for advice on alternatives to electronic filing.

FOR FURTHER INFORMATION CONTACT: Stephen L. Sharfman, General Counsel at 202-789-6820.

SUPPLEMENTARY INFORMATION:

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I. Introduction

On April 30, 2012, the Postal Service filed a request pursuant to 39 U.S.C. 3622 and 3642, as well as 39 CFR 3010 and 3020 et seq., to add a negotiated service agreement (NSA) with Valassis Direct Mail, Inc. (Valassis) to the market dominant product list.¹

Request. In support of its Request, the Postal Service filed six attachments as follows:

- Attachment A—a copy of Governors’ Resolution No. 11-4, establishing mail classifications and rates corresponding to Domestic Market Dominant Agreements, Inbound International Market Dominant Agreements, and Other Non-Published Market Dominant Rates;
- Attachment B—a copy of the instant contract;
- Attachment C—proposed changes to the Mail Classification Schedule (MCS);
- Attachment D—a proposed data collection plan;

¹ Notice of the United States Postal Service of Filing of Contract and Supporting Data and Request to Add Valassis Direct Mail, Inc. Negotiated Service Agreement to the Market-Dominant Product List, April 30, 2012 (Request).

- Attachment E—a Statement of Supporting Justification as required by 39 CFR 3020.32, which the Postal Service is also using to satisfy the requirements of 39 CFR 3010.42(b)-(e); and

- Attachment F—a financial model, by which the Postal Service demonstrates that it believes that the instant contract will generate an additional \$13 million to \$42 million in contribution.

In its Request, the Postal Service identifies Michelle Yorgey, Acting Manager, Pricing Strategy, as the official able to provide responses to queries from the Commission. Id. at 2. David Mastervich, Manager, Saturation and Catalogs, provides the Statement of Supporting Justification. Id., Attachment E. In his Statement of Supporting Justification, Mr. Mastervich reviews the factors and objectives of section 3622(c) and concludes, inter alia, that the instant contract will provide an incentive for profitable new mail; will enhance the financial position of the Postal Service; will increase mail volume; and will not imperil the ability of Standard Mail (or the instant contract) to cover its attributable costs. Id. at 1-3.

The Postal Service believes that this NSA conforms to the policies of the Postal Accountability and Enhancement Act, and meets the statutory standards supporting the desirability of special classifications that improve the net financial position of the Postal Service by increasing contribution. Id. at 3.

Instant contract. The Postal Service states that the objective of the instant contract is twofold: (a) to maintain the total contribution the Postal Service receives from Valassis Saturation Mail Postage, and (b) to provide an incentive for Valassis to find innovative ways to expand its use of Standard Mail. Request at 2. The Postal Service describes the instant contract and its four key components: mailer eligibility, mail eligibility, mailing and volume commitments, and rebates on Standard Mail Saturation Flats Mail. Id. at 4.

To be eligible for the contract prices, Valassis must initiate new shared saturation mail programs (limited to advertising of durable and semi-durable goods with a physical retail outlet presence in 30 or more states) in markets where it has maintained an existing Standard Mail Saturation mailing program on at least a monthly basis during the 2 years prior to the execution of the instant contract. Valassis must also maintain its pre-existing shared mail program for the duration of the instant contract, and cannot transfer or consolidate advertising from current advertisers into the new program, extend the new program to ZIP Codes or carrier routes that are beyond the market profile of its existing programs, or migrate advertising circular business from the solo mail stream into its new program. Id.

Mailpieces eligible under this program are Standard Mail Saturation Flats entered at a destination Sectional Center Facility (SCF) or Destination Delivery Unit (DDU). Id. at 3. Qualifying mailpieces must have dimensions between

6.125" x 11.5" x .25" and 12" x 15" x .75", and must contain between 3 and 10 advertising inserts during at least 9 of the 12 months of each contract year. Id. at 5. The volume mailed to DDUs must exceed 85 percent of the total volume of pieces mailed. Id.

Valassis has agreed to initiate mailings under the instant agreement within 90 days of its effective date. Otherwise, either party may cancel the agreement within 30 days. Id. The effective date is defined as the date on which the Commission approves the contract. Id., Attachment B at 5. If Valassis decides to proceed with the agreement, it must mail at least 1,000,000 pieces during the following 12 months or pay the Postal Service a one-time fee of \$100,000. Request at 5.

If all the above conditions are met, Valassis will earn an annual rebate on published prices as follows:

Weight Per Piece	DDU Rate	SCF Rate
4.5 to 6.5 ounces	20% off published rates at the time of mailing	20% off published rates at the time of mailing
6.5 to 9 ounces	\$0.172	\$0.185
9.0 ounces to 11 ounces	\$0.211	\$0.229
Over 11 ounces	20% off published rates at the time of mailing	20% off published rates at the time of mailing

The annual rebate will be paid after the end of each contract year. Id. at 5-6. If the Postal Service implements price adjustments during the term of the agreement, the rebate prices for the 6.5- to 9.0-ounce and 9.0- to 11-ounce mailpieces will be adjusted in an amount equal to the percentage price change

for Standard Mail Saturation Flats, provided that the rebates remain in the range of 22 percent to 34 percent. Id. at 6. The mailpieces sent under the instant contract will be entered exclusively under dedicated PostalOne™ permit accounts. Id.

The Postal Service expects that the value of the agreement to still be positive if the penalty provision is triggered, reducing the risk of the agreement. Id. at 7.

Similarly situated mailers. With respect to potential similarly situated mailers, the Postal Service states that the design imperative—to generate additional contribution—and the basic structure of the agreement with Valassis as described in the Request, will guide the Postal Service in the negotiation of similar agreements and may, in other NSAs, yield parameters that are substantially different from those in the instant contract. Id. at 6-7. It states that in assessing the desirability of the instant contract, it believes that the defining characteristics of Valassis are its size, nationwide distribution network, and significant volume of Saturation Mail. Id. at 7. It maintains that these characteristics enable Valassis to provide a new opportunity to retail advertisers of durable and semi-durable goods that is scalable across multiple media markets. Id. In offering similar agreements, the Postal Service will look for all of these characteristics, as well as other conditions that might affect a favorable contractual agreement. Id.

Notice. The Postal Service represents that it will inform customers of the new classification changes and associated price effects through a press release, notification on www.usps.com, and publication in the Federal Register.

II. Notice of Filing

The Commission establishes Docket Nos. MC2012-14 and R2012-8 for consideration of the Request pertaining to the proposed new product and the related contract, respectively.

Interested persons may submit comments on whether the Postal Service's filing in the captioned dockets are consistent with the policies of 39 U.S.C. 3622 and 3642 as well as 39 CFR parts 3010 and 3020. Comments are due no later than May 23, 2012. Reply comments to initial comments are due May 30, 2012. The filing can be accessed via the Commission's Web site (<http://www.prc.gov>).

The Commission appoints Malin G. Moench to serve as Public Representative in these dockets.

III. Ordering Paragraphs

It is ordered:

1. The Commission establishes Docket Nos. MC2012-14 and R2012-8 for consideration of the matters raised in each docket.

2. Pursuant to 39 U.S.C. 505, Malin G. Moench is appointed to serve as officer of the Commission (Public Representative) to represent the interests of the general public in these proceedings.

3. Initial comments by interested persons in these proceedings are due no later than May 23, 2012.

4. Reply comments may be filed no later than May 30, 2012.

5. The Secretary shall arrange for publication of this order in the Federal Register.

By the Commission.

Ruth Ann Abrams,

Acting Secretary.

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